

Message Text

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PAGE 01 BELGRA 03632 01 OF 02 031058Z

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AMEMBASSY PARIS

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PARIS FOR USOECD

E.O. 11652: N/A

TAGS: EFIN, ECON, YO

SUBJECT: CONANOVIC TO RESIGN AS NATIONAL BANK GOVERNOR

REF: A) BELGRADE 2835; B) BELGRADE 3284

SUMMARY: BRANKO COLANOVIC, GOVERNOR OF THE NATIONAL BANK OF YUGOSLAVIA FOR THE PAST FIVE YEARS, WILL LEAVE THAT POSITION TO BECOME THE PRESIDENT OF JUGOBANKA, THE LARGEST COMMERCIAL BANK IN YUGOSLAVIA. THE ANNOUNCEMENT COMES AFTER A TIME OF SHARP CRITICISM OF THE BANKING COMMUNITY ON A NUMBER OF POLITICAL AND ECONOMIC GROUNDS. HIS SUCCESSOR HAS NOT YET BEEN NAMED. END SUMMARY.

1. THE WEDNESDAY JUNE 1 EDITIONS OF "PRIVREDNI PREGLED" AND "POLITIKA" CARRIED BRIEF ARTICLES ANNOUNCING THE APPOINTMENT OF BRANKO COLANOVIC, CURRENT GOVERNOR OF THE NATIONAL BANK OF YUGOSLAVIA, AS PRESIDENT OF JUGOBANKA FOR A FOUR-YEAR TERM.

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PAGE 02 BELGRA 03632 01 OF 02 031058Z

NO DATE WAS GIVEN FOR HIS RESIGNATION FROM THE NATIONAL BANK AND NO ONE WAS NAMED TO TAKE HIS PLACE. NATIONAL BANK SOURCES SAY HOWEVER THAT SOMEONE WILL BE APPOINTED WITHIN THREE TO FOUR DAYS AND THAT THE RESIGNATION OF COLANOVIC WILL ALSO TAKE EFFECT IN THIS PERIOD. THESE SAME SOURCES STATE THAT ILIJA MARJANOVIC, A CURRENT NATIONAL BANK EMPLOYEE, HAS BEEN NAMED AS ACTING "DEPUTY" OF THE BANK UNTIL A NEW GOVERNOR IS NAMED.

MARJANOVIC IS FROM BOSNIA-HERCEGOVINA AND HAS HAD PREVIOUS EXPERIENCE AS ASSISTANT SECRETARY FOR FINANCE.

2. ALTHOUGH NO REASONS WERE GIVEN IN THE ANNOUNCEMENTS FOR THE SWITCH, THERE HAS BEEN STRONG CRITICISM OF THE BANKING COMMUNITY IN RECENT MONTHS AND LATELY THAT CRITICISM HAS FOCUSED ON THE NATIONAL BANK AND THEREFORE ON COLANOVIC. THE 1976 ANNUAL REPORT OF THE BANK HAS NOT BEEN ACCEPTED BY THE COMMITTEE FOR THE MONETARY CREDITY SYSTEM OF THE FEDERAL ASSEMBLY BECAUSE OF SLOVENIAN OBJECTIONS TO THE NATIONAL BANK'S HANDLING OF THE MONEY SUPPLY IN 1976 (IT INCREASED BY 53 PERCENT) AND ALSO BECAUSE OF THE MANAGEMENT OF THE PRIMARY ISSUE (SLOVENIA CLAIMS THAT A LARGE PORTION OF THE FINANCING WAS DONE WITHOUT THE REQUIRED CONSENT OF THE NATIONAL BANK BOARD OF GOVERNORS). THE FAILURE OF THE NATIONAL BANK TO ORGANIZE A DRAFT-DISCOUNT MARKET HAS ALSO AROUSED CRITICISM, EVEN FROM ONE OF THE COMMERCIAL BANKS. THE CURRENT YUGOSLAV AMBASSADOR TO WASHINGTON, BELOVSKI, TOLD CHARGE PRIOR TO THE PUBLIC ANNOUNCEMENT THAT ONE OF THE REPUBLICS (PRESUMABLY SLOVENIA) GO THE GOVERNOR OF THE NATIONAL BANK "FIRED" BECAUSE OF ITS DISSATISFACTION WITH THE HIGH RATE OF GROWTH OF THE MONEY SUPPLY IN 1976.

3. BESIDES THIS DIRECT CRITICISM, COLANOVIC MAY BE DIRECTLY OR INDIRECTLY HELD ACCOUNTABLE FOR OTHER ALLEGED SINS OF THE COMMERCIAL BANKS WHICH HAVE COME TO THE FORE IN 1977. THE FIRST MAJOR CRITICISM WAS THE HIGH PROFITS OF THE BANKING SYSTEM IN 1976. THIS WAS DUE TO THE INCREASED BORROWING BY THE ENTERPRISES IN PARTICULAR BUT THE CRITICISM CENTERED COMPLETELY ON THE "TAKINGS FROM THE ECONOMY" ON THE PART OF THE BANKS. LIMITED OFFICIAL USE

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PAGE 03 BELGRA 03632 01 OF 02 031058Z

FREQUENT PRESS COMPARISONS WERE MADE OF THE SIMILAR AMOUNTS OF 1976 BANK PROFITS AND ENTERPRISE LOSSES. IN POINT OF FACT, INTEREST RATES FOR BORROWING OF ALL TYPES HAVE TRADITIONALLY BEEN AT OR BELOW THE INFLATION RATE. IN 1976, FOR EXAMPLE, BANK INTEREST CHARGES RANGED FROM 7 TO 12 PERCENT AND THE COST OF LIVING ROSE BY 12 PERCENT. THE RESULT OF THIS CRITICISM WAS A "VOLUNTARY" DECISION OF THE COMMERCIAL BANKS TO LOWER CURRENT INTEREST RATES AND REFUND TO BORROWERS PART OF THE BANKS' 1976 PROFITS.

4. A SECOND ISSUE WHICH HAS ALSO RECENTLY SURFACED IS DISSATISFACTION OF THE COMMUNIST PARTY WITH THE TRANSFORMATION OF THE BANKING SYSTEM TO CONFORM TO THE NEW LAW ON BANKING AND THE LAW ON ASSOCIATED LABOR. THE EXECUTIVE COMMITTEE OF THE LEAGUE OF COMMUNISTS HAS INSTRUCTED ALL COMMUNISTS IN THE BANKING FIELD TO SPEED UP THIS TRANSFORMATION. THE MAJOR COMPLAINT IS THAT THE BANKING COMMUNITY IS RETAINING ITS DISCRETIONARY

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PAGE 01 BELGRA 03632 02 OF 02 031156Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 BELGRADE 3632

LENDING POWER INSTEAD OF TURNING IT OVER TO ASSOCIATED LABOR
(BASIC ORGANIZATIONS OF ASSOCIATED LABOR) IN THE BOALS AND INTERNAL
BANKS.

5. SENIOR MANAGEMENT PEOPLE IN TWO OF THE LARGEST BANKS IN
YUGOSLAVIA TOLD EMBOFF THAT DR. KSENTE BOGOEV WILL BE APPOINTED
AS THE NEW GOVERNOR OF THE NATIONAL BANK AT A NATIONAL BANK
MEETING ON FRIDAY JUNE 3 AND THAT COLANOVIC'S RESIGNATION
WOULD BE ACCEPTED AT THE SAME TIME. BOGOEV, A MACEDONIAN, BORN
IN 1919, IS THE PRESIDENT OF THE EXECUTIVE COUNCIL OF MACEDONIA
AND A MEMBER OF THE FEDERAL COMMITTEE FOR SOCIAL PLANNING. HE
IS ALSO A MEMBER OF THE ECONOMICS FACULTY OF SKOPJE UNIVERSITY.

6. COMMENT: COLANOVIC CONTRIBUTED GREATLY TO THE FONFIDENCE
WHICH YUGOSLAVIA HAS BUILT UP IN THE WESTERN FINANCIAL COMMUNITY
AND THEREBY TO THE RELATIVELY HIGH AMOUNT OF CREDITS WHICH IT
HAS RECEIVED. ANY NATIONAL BANK GOVERNOR MUST BALANCE THE POLITICAL
CONSIDERATIONS IN YUGOSLAVIA WITHE PRACTICES OF THE WESTERN-
ORIENTED BANKING SYSTEM IN YUGOSLAVIA. THIS HAS NEVER BEEN AN
EASY TASK AND IT APPEARS AS IF LATELY THE POLITICAL CONSIDERATIONS
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PAGE 02 BELGRA 03632 02 OF 02 031156Z

HAVE BEEN GIVEN INCREASED EMPHASIS. IF THIS IS A PERMANENT

CHANGE, THE LONG-TERM IMPLICATIONS FOR THE YUGOSLAV FINANCIAL COMMUNITY COULD BE SIGNIFICANT.

8. ONE ISSUE NOT YET RESOLVED IS THE REAL DEGREE OF POWER WHICH THE YUGOSLAV BANKING SYSTEM WILL TRANSFER TO ITS BOAL FOUNDERS. IN THEORY, BANKS SHOULD BECOME MERE SERVICE ORGANIZATIONS FOR THEIR FOUNDERS WITH NO INDEPENDENT DECISION-MAKING ABILITY. HOW THIS WILL DEVELOP IN PRACTICE IS YET TO BE DETERMINED, BUT THE LEAGUE OF COMMUNISTS APPEARS TO BE MAKING SERIOUS EFFORTS TO CARRY IT OUT, WHILE PROBABLY AT MOST ONLY INDIRECTLY RELATED TO COLANOVIC'S DEPARTURE, IT IS AN ISSUE WORTHY OF CLOSE ATTENTION.
YORK

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